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Treasurer has incisive ideas about state coffers

By: Dan Weintraub
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California's deep-seated fiscal troubles are by now well known to almost everybody who follows public affairs: The state's spending is growing faster than its tax revenues, its infrastructure is falling behind the needs of a growing population, and with money short even for day-to-day operations, finding spare cash to invest in the future is tough to do.

Now comes state Treasurer Bill **Lockyer** with a fresh look at these old problems. **Lockyer,** in an annual report that typically gets a fairly limited distribution, has put the state's predicament into perspective in a way that should be required reading for the governor and lawmakers from both parties.

In one thin volume scheduled to be released Monday, **Lockyer** quantifies the state's current dilemma, offers a 20-year forecast for where things are headed, and then provides a provocative list of potential solutions.

The report is both sobering and encouraging at the same time. Yes, the state has a problem, and **Lockyer** doesn't shrink from that. But over the long term, the shortfall amounts to less than 4 percent, on average, of the annual budget. As a fiscal matter, if not a political one, this "crisis" is eminently solvable.

"It's not like it's cataclysmic," **Lockyer** told me last week.

Lockyer's account is known as the Debt Affordability Report and is supposed to answer the question: How much borrowing can the state afford? But **Lockyer** says the whole idea of trying to find a magic number or ratio to define the appropriate level of state debt is wrong-headed.

After all, he notes, the state's debt gets first call on tax dollars after money needed to satisfy the California Constitution's minimum guarantee for public education. So the bondholders who lend to the government are going to be repaid, no matter what. The money left in the treasury at that point will then be spread among other needs, including health care, public assistance, law enforcement and environmental protection.

"It's a matter of where those investments fit into your budget priorities," **Lockyer** said. "The more you do there the less you can do other things."

Gov. Arnold Schwarzenegger has pushed hard for more investment in infrastructure, but he also has argued for a statutory limit on debt, two contradictory positions that **Lockyer's** analysis punctures. According to the treasurer, Schwarzenegger and other policymakers shouldn't worry about the percentage of debt service in the budget but simply weigh the cost of that debt against the state's other needs and then make the call.

Lockyer's analysis concludes that the state actually is on track to enjoy a long-term surplus in its operating accounts -- the cost of running its programs and services on a day-to-day basis. When you remove the cost of servicing debt from the equation, the state will likely run a small surplus in 2008 that will grow to several billion dollars in the years after that and remain positive throughout the 20-year forecast period.

But the operating budget is only part of the story. The state must also find a way to pay the cost of servicing its debt, most of which goes for building new roads, schools, flood-control projects and the like. Currently, that debt service stands at about $7 billion a year. **Lockyer** projects that this number will shrink a bit in the next few years and then begin rising again, eventually reaching about $16 billion annually in 20 years and swamping the small, $2 billion surplus on the operating side of the budget.

The trick, then, is to find a way to balance these accounts, either by trimming spending or raising more revenues. And **Lockyer** isn't bashful about throwing some ideas around, though he is careful not to endorse any of them.

On the spending side, he says, the state could eventually save $7 billion annually by cutting the UC system loose from taxpayer financing and forcing the institution to cover its own budget through either fundraising or fees. And he thinks the government could save hundreds of millions of dollars by eliminating redundant programs or by retrofitting buildings to save on energy costs.

On the revenue side, he says $700 million in sales taxes are going uncollected annually as people buy products on the Internet and evade the required levy. And billions more could be collected by broadening the sales tax to cover services, from automobile repairs to entertainment and construction, which are now exempt.

If neither of those approaches finds support, **Lockyer** suggests a third way: tying future bond measures to a source of revenue to repay them. Some bonds could include user fees, including tolls, dedicated to servicing the debt. Others could be linked to a new statewide property tax.

The bottom line for **Lockyer** is that the state ought to assess its infrastructure needs over the long term and then map out a plan to pay for them. If there's not enough money in the till, either cut spending to make room or find more money.

Easier said than done? Sure. But still worth saying.